

WHAT IS CLAIMED IS:

1. A method of structuring a current mortgage price indicator (CMPI) mortgage futures contract, comprising the steps of:

identifying a set of mortgage-backed securities (MBS) coupons issued by a plurality of agencies for a pre-determined prior time period;

identifying the total MBS production of said plurality of agencies during said pre-determined prior time period, and eliminating from said set of MBS coupons any coupon which does not represent more than a pre-determined level of the total MBS production during said pre-determined prior time period;

calculating a coupon price for each of said set of MBS coupons issued by said plurality of agencies;

calculating a par-adjusted average coupon price (AAP) for said set of MBS coupons issued by said plurality of agencies;

selecting a subset containing N of said set of MBS coupons that is closest to said AAP;

assigning a numerical weight to each of said N coupons in said subset; and

including in the CMPI mortgage futures contract each of said N coupons in said subset and their corresponding numerical weights.

2. The method of Claim 1, wherein the CMPI mortgage futures contract is traded on an exchange.

3. The method of Claim 1, wherein said predetermined prior time period is three months; and said set of MBS coupons are from MBS backed by conventional 30-year mortgages.

4. The method of Claim 3, wherein said pre-determined level of total MBS production of said plurality of agencies, during said pre-determined prior time period, is five percent.

5. The method of Claim 4, wherein said plurality of agencies consists of Freddie Mac and Fannie Mae.

6. The method of Claim 5, wherein said AACP calculation comprises the steps of:

calculating an Average Coupon Price (ACP) for said set of MBS coupons issued by said plurality of agencies, wherein said ACP is equal to:

$$\frac{\sum_{k,A} \text{issuance}(k,A) * \text{price}(k,A)}{\text{total issuance}};$$

where $k \in \{\text{all coupons in said set of MBS coupons}\}$, and $A \in \{\text{Fannie Mae, Freddie Mac}\}$; and

determining said AACP of said set of MBS coupons issued by said plurality of agencies, wherein said $AACP = \frac{(100 + ACP)}{2}$.

7. The method of Claim 6, wherein N is equal to 3 and said step of assigning a numerical weight comprises the steps of:

assigning the coupon in said subset with the price closest to said AACP a fifty percent numerical weight; and

assigning each of the remaining two coupons of said subset a numerical weight of twenty-five percent.

8. The method of Claim 6, wherein N is equal to 2 and each coupon in said subset is assigned a numerical weight of fifty percent.

9. A method for cheaper-to-deliver, settlement pricing of a current mortgage price indicator (CMPI) mortgage futures contract, wherein the CMPI mortgage futures contract includes a set of N coupons from MBS backed by conventional 30-year mortgages, the method comprising the steps of:

5 receiving input indicative of a plurality of bid and ask prices for coupons issued by a first agency and by a second agency corresponding to each of said N coupons in the CMPI mortgage futures contract;

calculating a price, P , for each of said corresponding N coupons issued by said first agency and for each of said corresponding N coupons issued by said
10 second agency using said plurality of bid and ask prices; and

setting the settlement price of the CMPI mortgage futures contract, equal
to:

$$\sum_{i=1}^N X_i \cdot \min[P_i^{Agency1}, P_i^{Agency2}]$$

where X is a numerical weight assigned to each of said set of N coupons when the
15 CMPI mortgage futures contract was first structured.

10. The method of Claim 9, wherein said first agency is Freddie Mac, said second agency is Fannie Mae, and N is equal to three.

11. The method of Claim 10, further comprising the step of multiplying the price, P_i , of each of said N coupons issued by Fannie Mae by a cash-flow
20 adjustment factor before setting the settlement price of the CMPI mortgage futures contract.

12. The method of Claim 11, wherein said cash-flow adjustment factor is equal to:

$$(1 + \rho)^{d/365}$$

where d is the differential, measured in days, between the payments to investors on Fannie Mae and Freddie Mac MBS, and ρ is a yield approximation equal to:

$$\frac{\text{high coupon} * (100 - \text{low coupon price}) + \text{low coupon} * (\text{high coupon price} - 100)}{(\text{high coupon price} - \text{low coupon price})}$$

where the low and high coupon are the coupons in said N set of coupons issued by Fannie Mae that are farthest and closest to 100, respectively.

13. A computer program product comprising a computer usable medium having control logic stored therein for causing a computer to structure a current mortgage price indicator (CMPI) mortgage futures contract, said control logic comprising:

first computer readable program code means for causing the computer to identify a set of mortgage-backed securities (MBS) coupons issued by a plurality of agencies for a pre-determined prior time period;

second computer readable program code means for causing the computer to identify the total MBS production of said plurality of agencies during said pre-determined prior time period, and eliminating from said set of MBS coupons any coupon which does not represent more than a pre-determined level of the total MBS production during said pre-determined prior time period;

third computer readable program code means for causing the computer to calculate a coupon price for each of said set of MBS coupons issued by said plurality of agencies;

fourth computer readable program code means for causing the computer to calculate a par-adjusted average coupon price (AAPC) for said set of MBS coupons issued by said plurality of agencies;

fifth computer readable program code means for causing the computer to select a subset containing N of said set of MBS coupons that is closest to said AAPC; and

sixth computer readable program code means for causing the computer to assign a numerical weight to each of said N coupons in said subset.

14. A computer program product comprising a computer usable medium having control logic stored therein for causing a computer to determine the cheaper-to-deliver, settlement price of a current mortgage price indicator (CMPI) mortgage futures contract, wherein the CMPI mortgage futures contract includes a set of N coupons from MBS backed by conventional 30-year mortgages, said control logic comprising:

first computer readable program code means for causing the computer to receive input indicative of a plurality of bid and ask prices for coupons issued by a first agency and by a second agency corresponding to each of said N coupons in the CMPI mortgage futures contract;

second computer readable program code means for causing the computer to calculate a price, P , for each of said corresponding N coupons issued by said first agency and for each of said corresponding N coupons issued by said second agency using said plurality of bid and ask prices; and

third computer readable program code means for causing the computer to set the settlement price of the CMPI mortgage futures contract, equal to:

$$\sum_{i=1}^N X_i \cdot \min[P_i^{Agency1}, P_i^{Agency2}]$$

where X is a numerical weight assigned to each of said set of N coupons when the CMPI mortgage futures contract was first structured.